

# **School District of the City of Battle Creek**

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**Financial Report  
with Supplemental Information  
June 30, 2007**

# School District of the City of Battle Creek

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## Independent Auditor's Report

To the Board of Education  
School District of the City of Battle Creek

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the School District of the City of Battle Creek as of and for the year ended June 30, 2007, which collectively comprise the School District's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the School District of the City of Battle Creek's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund, and the aggregate remaining fund information of the School District of the City of Battle Creek as of June 30, 2007 and the respective changes in financial position for the year then ended, in conformity with accounting principles generally accepted in the United States of America.

The management's discussion and analysis and the budgetary comparison schedules (identified in the table of contents) are not a required part of the basic financial statements but are supplemental information required by accounting principles generally accepted in the United State of America. We have applied certain limited procedures, which consisted principally of inquiries of management, regarding the methods of measurement and presentation of the required supplemental information. However, we did not audit the information and express no opinion on it.

To the Board of Education  
School District of the City of Battle Creek

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the School District of the City of Battle Creek's basic financial statements. The accompanying other supplemental information, as identified in the table of contents, is presented for additional analysis and is not a required part of the basic financial statements. The other supplemental information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

In accordance with *Government Auditing Standards*, we have also issued a report dated November 6, 2007 on our consideration of the School District's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, grant agreements, and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide opinions on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

*Plante & Moreau, PLLC*

November 6, 2007

# **School District of the City of Battle Creek**

## **Management's Discussion and Analysis**

This section of the School District of the City of Battle Creek's financial report presents our discussion and analysis of the School District's financial performance during the fiscal year ended June 30, 2007. Please read it in conjunction with the School District's financial statements, which immediately follow this section.

### **Using this Annual Report**

This annual report consists of a series of financial statements and notes to those statements. These statements are organized so the reader can understand the School District of the City of Battle Creek financially as a whole. The district-wide financial statements provide information about the activities of the whole School District, presenting both an aggregate view of the School District's finances and a longer-term view of those finances. The fund financial statements provide the next level of detail. For governmental activities, these statements tell how services were financed in the short term as well as what remains for future spending. The fund financial statements look at the School District's operations in more detail than the district-wide financial statements by providing information about the School District's most significant funds - the General Fund, the 2007 Bond Building and Site Fund, and the Calhoun Area Technology Center, with all other funds presented in one column as nonmajor funds. The remaining statements, the statement of fiduciary net assets and the statement of changes in fiduciary net assets, present financial information about activities for which the School District acts solely as an agent for the benefit of students and parents.

Management's Discussion and Analysis (MD&A)  
(Required Supplemental Information)

Basic Financial Statements

District-wide Financial Statements      Fund Financial Statements

Notes to the Basic Financial Statements

(Required Supplemental Information)  
Budgetary Information for Major Funds

Other Supplemental Information

### ***Reporting the School District as a Whole - District-wide Financial Statements***

One of the most important questions asked about the School District is, "As a whole, what is the School District's financial condition as a result of the year's activities?" The statement of net assets and the statement of activities, which appear first in the School District's financial statements, report information on the School District as a whole and its activities in a way that helps you answer this question. We prepare these statements to include all assets and liabilities, using the accrual basis of accounting, which is similar to the accounting used by most private-sector companies. All of the current year's revenues and expenses are taken into account regardless of when cash is received or paid.

# School District of the City of Battle Creek

## Management's Discussion and Analysis (Continued)

These two statements report the School District's net assets - the difference between assets and liabilities, as reported in the statement of net assets - as one way to measure the School District's financial health or financial position. Over time, increases or decreases in the School District's net assets - as reported in the statement of activities - are indicators of whether its financial health is improving or deteriorating. The relationship between revenues and expenses is the School District's operating results. However, the School District's goal is to provide services to students, not to generate profits as a commercial entity. Many other nonfinancial factors, such as the quality of the educational programs, are used to assess the overall health of the School District.

The statement of net assets and the statement of activities report the governmental activities for the School District, which encompass all of the School District's services, including instruction, support services, community services, athletics, capital projects, and food services. Property taxes, unrestricted state aid per pupil (foundation allowance revenue), and state and federal grants finance most of these activities.

### ***Reporting the School District's Most Significant Funds - Fund Financial Statements***

The School District's fund financial statements provide detailed information about the most significant funds - not the School District as a whole. Some funds are required to be established by state law and by bond covenants. However, the School District establishes many other funds to help it control and manage money for particular purposes (Special Revenue Funds - the Calhoun Area Technology Center, Math and Science Center, Technology, Athletics, Food Service, and Operation Grad Funds are examples) or to show that it is meeting legal responsibilities for using certain taxes, grants, and other money (such as millage funds used for capital projects). The governmental funds of the School District use the following accounting approach:

**Governmental Funds** - All of the School District's services are reported in governmental funds. Governmental fund reporting focuses on showing how money flows into and out of funds and the balances left at year end that are available for spending. They are reported using an accounting method called modified accrual accounting, which measures cash and all other financial assets that can readily be converted to cash. The governmental fund statements provide a detailed short-term view of the operations of the School District and the services it provides. Governmental fund information helps you determine whether there are more or fewer financial resources that can be spent in the near future to finance the School District's programs. We describe the relationship (or differences) between governmental activities (reported in the statement of net assets and the statement of activities) and governmental funds in reconciliation.

# School District of the City of Battle Creek

## Management's Discussion and Analysis (Continued)

### *The School District as Trustee - Reporting the School District's Fiduciary Responsibilities*

The School District is the trustee, or fiduciary, for student activity funds. All of the School District's fiduciary activities are reported in a separate statement of fiduciary net assets. We exclude these activities from the School District's other financial statements because the School District cannot use these assets to finance its operations. The School District is responsible for ensuring that the assets reported in these funds are used for their intended purposes.

### **The School District as a Whole**

Recall that the statement of net assets provides the perspective of the School District as a whole. Table I provides a summary of the School District's net assets as of June 30, 2007 and 2006:

TABLE I

	Governmental Activities	
	2007	2006
	(in millions)	
<b>Assets</b>		
Current and other assets	\$ 108.3	\$ 40.0
Capital assets	18.2	12.7
Total assets	126.5	52.7
<b>Liabilities</b>		
Current liabilities	11.8	9.7
Long-term liabilities	71.2	3.8
Total liabilities	83.0	13.5
<b>Net Assets</b>		
Invested in property and equipment - Net of related debt	17.1	11.6
Restricted	0.9	2.3
Unrestricted	25.5	25.3
Total net assets	<u>\$ 43.5</u>	<u>\$ 39.2</u>

The above analysis focuses on the net assets (see Table I). The change in net assets (see Table 2) of the School District's governmental activities is discussed below. The School District's net assets were \$43.5 million at June 30, 2007. Capital assets, net of related debt totaling \$17.1 million, compares the original cost, less depreciation of the School District's capital assets to long-term debt used to finance the acquisition of those assets. Restricted net assets, which total \$0.9 million, are reported separately to show legal constraints from debt covenants and enabling legislation that limit the School District's ability to use those net assets for day-to-day operations. The remaining amount of net assets (\$25.5 million) was unrestricted.

# School District of the City of Battle Creek

## Management's Discussion and Analysis (Continued)

The \$25.5 million in unrestricted net assets of governmental activities represents the accumulated results of all past years' operations. The unrestricted net assets balance enables the School District to meet working capital and cash flow requirements as well as to provide for future uncertainties. The operating results of the General Fund will have a significant impact on the change in unrestricted net assets from year to year.

The results of this year's operations for the School District as a whole are reported in the statement of activities (see Table 2), which shows the changes in net assets for fiscal years 2006-2007 and 2005-2006 for comparative purposes.

TABLE 2

	Governmental Activities	
	2007	2006
	(in millions)	
<b>Revenue</b>		
Program revenue:		
Charges for services	\$ 2.8	\$ 3.0
Operating grants	30.1	30.5
Capital grants and contributions	2.8	2.3
General revenue:		
Property taxes	7.5	7.7
State foundation allowance	42.7	43.0
Other	2.7	2.2
Total revenue	88.6	88.7
<b>Functions/Program Expenses</b>		
Instruction	47.4	47.7
Support services	31.8	34.0
Community services	1.6	0.2
Food services	2.6	2.6
Athletics	0.9	0.9
Total functions/program expenses	84.3	85.4
<b>Increase in Net Assets</b>	<b>\$ 4.3</b>	<b>\$ 3.3</b>

As reported in the statement of activities, the cost of all of our governmental activities this year was \$84.3 million. Certain activities were partially funded from those who benefited from the programs (\$2.8 million) or by other governments and organizations that subsidized certain programs with grants and contributions (\$32.9 million). We paid for the remaining "public benefit" portion of our governmental activities with \$7.5 million in taxes, \$42.7 million in state foundation allowance, and with our other revenues, i.e., interest and general entitlements.



# **School District of the City of Battle Creek**

## **Management's Discussion and Analysis (Continued)**

The School District experienced an increase in net assets of \$4.3 million. The source of this increase was 48 percent attributable to the completion of a construction project of the W.K. Kellogg Auditorium. The renovation of this structure was 92 percent funded over two years by contributions from local organizations interested in restoring the facility to honor the man for whom the building is historically named. Local organizations funded this renovation to stimulate additional cultural events within our community by offering a venue that is on the cutting edge of the performing arts society specifications. The balance of asset appreciation was attributable to a district-wide effort to update and maintain our facilities to the maximum of our funding capability.

As discussed above, the net cost shows the financial burden that was placed on the State and the School District's taxpayers by each of these functions. Since property taxes for operations and unrestricted state aid constitute the vast majority of School District operating revenue sources, the Board of Education and administration must annually evaluate the needs of the School District and balance those needs with state-prescribed available unrestricted resources.

### **The School District's Funds**

As we noted earlier, the School District uses funds to help it control and manage money for particular purposes. Examining the various funds helps the reader consider whether the School District is being accountable for the resources provided to it while furnishing more insight into the School District's overall financial health.

As the School District completed this year, excluding the new 2007 Bond Building and Site Fund, the governmental funds reported a combined fund balance of \$29.5 million, which is a decrease of \$1.6 million from last year. This decrease was mostly attributable to a combination of the Building and Site Fund and the Calhoun Area Tech Fund usage of fund balance.

In the General Fund, our principal operating fund, the fund balance increased approximately \$120,000 to \$23.2 million.

Some of the significant events that impacted the financial results are:

- An additional decrease of 109 blended full-time equated students, compared to initial projections, resulted in a reduction of \$0.8 million in state foundation revenue.
- Additional local, state, and federal funding offset the initial projected loss and helped to maintain programs.
- Staffing and related fringes were beneath expected levels for 2006-2007. When possible, temporary employees filled vacancies to reduce the level of expenditures to the General Fund.
- Transportation costs were reduced by usage of transportation services to facilitate before and after school grant-funded programs.

General Fund fund balance is available to fund costs related to allowable school operating purposes.

# School District of the City of Battle Creek

## Management's Discussion and Analysis (Continued)

Our Special Revenue Funds decreased slightly from the prior years, showing a net decrease of approximately \$370,000. Capital Projects Funds, excluding the new 2007 Bond Building and Site Fund, also reported a decrease in fund balance of \$1.3 million. This decrease in funds was due to the timing of projects over the summer months in preparation for the beginning of the 2007-2008 school year, as well as an advanced effort to update facilities.

### **General Fund Budgetary Highlights**

Over the course of the year, the School District revises its budget as it attempts to deal with unexpected changes in revenues and expenditures. State law requires that the budget be amended to ensure that expenditures do not exceed appropriations. The final amendment to the budget was adopted just before year end. A schedule showing the School District's original and final budget amounts compared with amounts actually paid and received is provided in the required supplemental information section of these financial statements.

There were revisions made to the 2006-2007 General Fund original budgets. Budgeted revenues were increased \$0.6 million due to increases in federal, state, and local funding offset against decreases in enrollment. Budgeted expenditures were increased partially as a result of the increased offsetting grant state and federal grant revenues. Both revenue and expenses were equally changed by \$1.2 million due to a Michigan Youth Challenge flow-through grant not included in the initial adopted budget.

### **Capital Assets and Debt Administration**

#### ***Capital Assets***

As of June 30, 2007, the School District had \$39.7 million invested in a broad range of capital assets, including land, buildings, vehicles, furniture, and equipment as well as construction in progress, which was an increase of 20 percent compared to 2006.

	2007	2006
Land	\$ 1,004,558	\$ 820,993
Construction in progress	107,786	2,249,878
Buildings and building improvements	27,333,035	19,909,349
Buses and other vehicles	4,835,021	4,711,643
Furniture and equipment	6,411,620	5,229,994
Total capital assets	<u>\$ 39,692,020</u>	<u>\$ 32,921,857</u>

We present more detailed information about our capital assets in the notes to the financial statements.

Upcoming years will show a significant increase in capital assets due to the recent bond passage allowing for capital projects in excess of \$68 million over the next four years.

# School District of the City of Battle Creek

## Management's Discussion and Analysis (Continued)

### Debt

At the end of this year, the School District had \$68.7 million in bonds outstanding, which is \$67.7 million more than the previous year. Those bonds consisted of the following:

	2007	2006
2007 Bond Building and Site	\$ 67,705,000	\$ -
Durant Bonds	1,009,275	1,009,275
Total bonded debt	<u>\$ 68,714,275</u>	<u>\$ 1,009,275</u>

One of the School District's funds is a Debt Fund related to the Durant Non-Plaintiff bonds. These bonds are funded by annual state appropriation and no fund balance exists at year end.

The \$67.7 million addition of bonded debt resulted from a 3.95 mill debt levy being passed by the voters on May 8, 2007. The millage was passed to allow for the renovation of the School District's Central High School and Valleyview Elementary locations. The initial bond was expected to be \$68.9 million. However, due to a combination of an excellent credit rating and insurance, the School District was able to obtain funding at a reduced level for the project.

Other obligations include accrued sick leave and self-insurance liabilities. We present more detailed information about our long-term liabilities in the notes to the financial statements.

### Economic Factors and Next Year's Budgets and Rates

Our elected officials and administration consider many factors when setting the School District's 2008 fiscal year budget. One of the most important factors affecting the budget is our student count. The state foundation revenue is determined by multiplying the blended full-time equated student count by the foundation allowance per pupil. The blended count for the 2008 fiscal year is expected to be 25 percent and 75 percent of the February 2007 and September 2007 student counts, respectively. The 2007-2008 budget was adopted in June 2007, based on an estimate of students that will be enrolled in September 2007. Approximately 63 percent of total General Fund revenue is from the foundation allowance. Under state law, the School District cannot assess additional property tax revenue for general operations. As a result, School District funding is heavily dependent on the State's ability to fund local school operations. Once the final student count and related per pupil funding is validated, state law requires the School District to amend the budget if actual School District resources are not sufficient to fund original appropriations. The School District makes these adjustments and adopts the amendments at the annual November board meeting.

Since the School District's revenue is heavily dependent on state aid, the revenue received in the State Aid Fund is directly related to the State's effectiveness at collecting taxes for the purpose of funding education.

# School District of the City of Battle Creek

## Statement of Net Assets June 30, 2007

	Governmental Activities
<b>Assets</b>	
Cash and investments (Note 3)	\$ 24,246,855
Receivables - Net (Note 4)	12,314,477
Inventories	886,004
Prepaid costs	1,988,418
Restricted assets	68,889,190
Capital assets - Net (Note 5)	18,221,489
Total assets	126,546,433
<b>Liabilities</b>	
Accounts payable	2,257,465
Accrued payroll and other liabilities	6,729,756
Deferred revenue (Note 4)	1,264,396
Long-term liabilities (Note 8):	
Due within one year	1,588,871
Due in more than one year	71,173,483
Total liabilities	83,013,971
<b>Net Assets</b>	
Investment in capital assets - Net of related debt	17,104,905
Restricted - Capital projects	902,700
Unrestricted	25,524,857
Total net assets	<u><u>\$ 43,532,462</u></u>

# School District of the City of Battle Creek

## Statement of Activities Year Ended June 30, 2007

	Expenses	Program Revenues			Governmental Activities
		Charges for Services	Operating Grants/ Contributions	Capital Grants/ Contributions	Net (Expense) Revenue and Changes in Net Assets
<b>Functions/Programs</b>					
Primary government - Governmental activities:					
Instruction	\$ 47,368,587	\$ 709,829	\$ 19,195,430	\$ -	\$ (27,463,328)
Support services	31,769,061	1,484,822	7,335,066	-	(22,949,173)
Food services	2,561,266	494,152	2,230,024	-	162,910
Athletics	904,455	122,268	-	-	(782,187)
Community services	1,631,864	-	1,319,839	2,774,000	2,461,975
Interest on long-term debt	48,042	-	-	-	(48,042)
Total governmental activities	<u>\$ 84,283,275</u>	<u>\$ 2,811,071</u>	<u>\$ 30,080,359</u>	<u>\$ 2,774,000</u>	(48,617,845)
General revenues:					
Taxes:					
Property taxes, levied for general purposes					5,364,745
Property taxes, levied for capital projects					2,137,347
State aid not restricted to specific purposes					42,749,446
Interest and investment earnings					1,173,233
Other					1,509,017
Total general revenues					52,933,788
<b>Change in Net Assets</b>					4,315,943
<b>Net Assets - Beginning of year</b>					39,216,519
<b>Net Assets - End of year</b>					<u>\$ 43,532,462</u>

# School District of the City of Battle Creek

## Governmental Funds Balance Sheet June 30, 2007

	General Fund	2007 Bond Building and Site	Calhoun Area Technology Center	Nonmajor Governmental Funds	Total Governmental Funds
<b>Assets</b>					
Cash and investments (Note 3)	\$ 23,752,805	\$ -	\$ 100	\$ 493,950	\$ 24,246,855
Receivables - Net (Note 4)	390,890	-	159,410	228,661	778,961
Due from other governmental units (Note 4)	11,299,872	-	95,694	-	11,395,566
Due from other funds (Note 6)	-	-	2,711,740	3,454,534	6,166,274
Inventories	173,639	-	42,350	670,015	886,004
Prepaid costs	1,789,919	-	4,428	194,071	1,988,418
Restricted assets	-	68,889,190	-	-	68,889,190
Total assets	<u>\$ 37,407,125</u>	<u>\$ 68,889,190</u>	<u>\$ 3,013,722</u>	<u>\$ 5,041,231</u>	<u>\$ 114,351,268</u>
<b>Liabilities and Fund Balances</b>					
<b>Liabilities</b>					
Accounts payable	\$ 1,150,484	\$ 234,316	\$ 337,999	\$ 534,666	\$ 2,257,465
Accrued payroll and other liabilities	6,221,760	-	108,684	345,265	6,675,709
Due to other funds (Note 6)	5,964,915	61,409	-	-	6,026,324
Deferred revenue (Note 4)	850,014	-	8,500	405,882	1,264,396
Total liabilities	14,187,173	295,725	455,183	1,285,813	16,223,894
<b>Fund Balances</b>					
Reserved:					
Inventories	173,639	-	42,350	667,893	883,882
Prepays	1,789,919	-	4,428	194,071	1,988,418
Capital projects	-	68,593,465	-	976,974	69,570,439
Unreserved - Undesignated, reported in:					
General Fund	21,256,394	-	-	-	21,256,394
Calhoun Area Technology Center Fund	-	-	2,511,761	-	2,511,761
Special Revenue Funds	-	-	-	1,916,480	1,916,480
Total fund balances	<u>23,219,952</u>	<u>68,593,465</u>	<u>2,558,539</u>	<u>3,755,418</u>	<u>98,127,374</u>
Total liabilities and fund balances	<u>\$ 37,407,125</u>	<u>\$ 68,889,190</u>	<u>\$ 3,013,722</u>	<u>\$ 5,041,231</u>	<u>\$ 114,351,268</u>

# School District of the City of Battle Creek

## **Governmental Funds Reconciliation of the Balance Sheet of Governmental Funds to the Statement of Net Assets June 30, 2007**

**Fund Balance - Total Governmental Funds** \$ 98,127,374

Amounts reported for governmental activities in the statement  
of net assets are different because:

Capital assets used in governmental activities are not financial  
resources and are not reported in the governmental  
funds:

Cost of capital assets	\$ 39,692,020	
Accumulated depreciation	<u>(21,470,531)</u>	18,221,489

Long-term liabilities are not due and payable in the current  
period and are not reported in the governmental funds:

Bonds payable, including unamortized premium	(69,730,276)
Self-insurance	(388,871)
Compensated absences	(2,643,207)

Accrued interest payable is not included as a liability in  
governmental funds

(54,047)

**Net Assets - Governmental Activities** **\$ 43,532,462**

# School District of the City of Battle Creek

## Governmental Funds Statement of Revenue, Expenditures, and Changes in Fund Balances Year Ended June 30, 2007

	General Fund	2007 Bond Building and Site	Calhoun Area Technology Center	Nonmajor Governmental Funds	Total Governmental Funds
<b>Revenue</b>					
Local sources	\$ 7,458,205	\$ -	\$ 239,387	\$ 7,512,168	\$ 15,209,760
State sources	48,679,638	-	739,605	3,235,988	52,655,231
Federal sources	8,112,495	-	799,269	1,980,836	10,892,600
Interdistrict and other sources	4,166,848	-	5,674,779	-	9,841,627
Total revenue	68,417,186	-	7,453,040	12,728,992	88,599,218
<b>Expenditures</b>					
Current:					
Instruction	40,350,477	-	4,242,447	1,869,135	46,462,059
Support services	25,478,679	-	2,962,579	3,136,715	31,577,973
Community services	224,397	-	2,769	-	227,166
Food service	-	-	-	2,551,484	2,551,484
Athletics	-	-	-	852,991	852,991
Capital outlay	-	127,536	453,916	6,692,160	7,273,612
Intergovernmental transfers	1,306,871	-	14,000	-	1,320,871
Interfund reimbursement	(418,766)	-	247,277	171,489	-
Total expenditures	66,941,658	127,536	7,922,988	15,273,974	90,266,156
<b>Excess (Deficiency) of Revenue Over Expenditures</b>	1,475,528	(127,536)	(469,948)	(2,544,982)	(1,666,938)
<b>Other Financing Sources (Uses)</b>					
Transfers in	-	-	-	1,354,602	1,354,602
Transfers out	(1,354,602)	-	-	-	(1,354,602)
Long-term debt issued	-	67,705,000	-	-	67,705,000
Premium on debt issued	-	1,016,001	-	-	1,016,001
Total other financing sources (uses)	(1,354,602)	68,721,001	-	1,354,602	68,721,001
<b>Net Change in Fund Balances</b>	120,926	68,593,465	(469,948)	(1,190,380)	67,054,063
<b>Fund Balances - Beginning of year</b>	23,099,026	-	3,028,487	4,945,798	31,073,311
<b>Fund Balances - End of year</b>	<u>\$ 23,219,952</u>	<u>\$ 68,593,465</u>	<u>\$ 2,558,539</u>	<u>\$ 3,755,418</u>	<u>\$ 98,127,374</u>



# School District of the City of Battle Creek

## **Governmental Funds Reconciliation of the Statement of Revenue, Expenditures, and Changes in Fund Balances of Governmental Funds to the Statement of Activities Year Ended June 30, 2007**

<b>Net Change in Fund Balances - Total Governmental Funds</b>		<b>\$ 67,054,063</b>
Amounts reported for governmental activities in the statement of activities are different because:		
Governmental funds report capital outlay as expenditures; in the statement of activities, these costs are allocated over their estimated useful lives as depreciation:		
Depreciation expense	\$ (1,220,926)	
Capitalized capital outlay	<u>6,770,163</u>	5,549,237
Bond issuance is not reported as financing sources on the statement of activities		(67,705,000)
Underwriter's premium and cost insurance reported as revenue and expenditures in the funds and amortized in the statement of activities		(1,016,001)
Accrued interest is recorded in the statement of activities when incurred; it is not reported in governmental funds until paid		(48,042)
Compensated absences and estimated self-insured liability claims are recorded when earned in the statement of activities		<u>481,686</u>
<b>Change in Net Assets of Governmental Activities</b>		<b><u>\$ 4,315,943</u></b>

# School District of the City of Battle Creek

## Fiduciary Fund Statement of Fiduciary Net Assets June 30, 2007

	Student Activities Agency Fund	Trust Fund	Total
<b>Assets</b>			
Cash and investments	\$ 227,016	\$ 3,144,491	\$ 3,371,507
Accounts receivable	937	1,523	2,460
Inventories	33,781	-	33,781
Total assets	<u>\$ 261,734</u>	<u>\$ 3,146,014</u>	<u>\$ 3,407,748</u>
<b>Liabilities</b>			
Accounts payable	\$ 32,154	\$ 3,000	\$ 35,154
Due to other funds	-	139,950	139,950
Due to student groups	229,580	-	229,580
Total liabilities	261,734	142,950	404,684
<b>Net Assets</b>	<u>-</u>	<u>3,003,064</u>	<u>3,003,064</u>
Total liabilities and net assets	<u>\$ 261,734</u>	<u>\$ 3,146,014</u>	<u>\$ 3,407,748</u>

# School District of the City of Battle Creek

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## **Fiduciary Fund** **Statement of Changes in Fiduciary Net Assets** **Year Ended June 30, 2007**

	<u>Trust Fund</u>
<b>Revenue</b>	
Contributions	\$ 12,158
Investment gain	<u>239,524</u>
Total revenue	251,682
<b>Expenses</b> - Scholarships and other expenditures	<u>275,101</u>
<b>Excess of Expenses Over Revenue</b>	(23,419)
<b>Net Assets</b> - Beginning of year	<u>3,026,483</u>
<b>Net Assets</b> - End of year	<u><u>\$ 3,003,064</u></u>

# **School District of the City of Battle Creek**

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## **Notes to Financial Statements June 30, 2007**

### **Note I - Summary of Significant Accounting Policies**

The accounting policies of the School District of the City of Battle Creek (the "School District") conform to accounting principles generally accepted in the United States of America (GAAP) as applicable to governmental units. The following is a summary of the significant accounting policies used by the School District:

#### **Reporting Entity**

The School District is governed by an elected seven-member Board of Education. The accompanying financial statements have been prepared in accordance with criteria established by the Governmental Accounting Standards Board for determining the various governmental organizations to be included in the reporting entity. These criteria include significant operational financial relationships that determine which of the governmental organizations are a part of the School District's reporting entity, and which organizations are legally separate, component units of the School District. Based on the application of the criteria, the School District does not contain any component units.

#### **District-wide and Fund Financial Statements**

The district-wide financial statements (i.e., the statement of net assets and the statement of activities) report information on all of the nonfiduciary activities of the primary government. For the most part, the effect of interfund activity has been removed from these statements. Governmental activities, which normally are supported by taxes and intergovernmental revenues, are reported separately from business-type activities, which rely to a significant extent on fees and charges for support. All of the School District's district-wide activities are considered governmental activities.

The statement of activities demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function. Program revenue includes (1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function and (2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function. Taxes, intergovernmental payments, and other items not properly included among program revenues are reported instead as general revenue.

Separate financial statements are provided for governmental funds and fiduciary funds, even though the latter are excluded from the district-wide financial statements. Major individual governmental funds are reported as separate columns in the fund financial statements.

# School District of the City of Battle Creek

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## Notes to Financial Statements June 30, 2007

### Note 1 - Summary of Significant Accounting Policies (Continued)

#### Measurement Focus, Basis of Accounting, and Financial Statement Presentation

**District-wide Financial Statements** - The district-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Revenue is recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenue in the year for which they are levied. Grants, categorical aid, and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

As a general rule, the effect of interfund activity has been eliminated from the district-wide financial statements.

Amounts reported as program revenue include (1) charges to customers or applicants for goods, services, or privileges provided; (2) operating grants and contributions; and (3) capital grants and contributions. Internally dedicated resources are reported as general revenue rather than as program revenue. Likewise, general revenue includes all taxes and unrestricted state aid.

**Fund Financial Statements** - Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenue is recognized as soon as it is both measurable and available. Revenue is considered to be available if it is collected within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the School District considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, as well as expenditures related to compensated absences and claims and judgments, are recorded only when payment is due.

Property taxes, unrestricted state aid, intergovernmental grants, and interest associated with the current fiscal period are all considered to be susceptible to accrual and so have been recognized as revenue of the current fiscal period. All other revenue items are considered to be available only when cash is received by the School District.

Fiduciary fund statements are also reported using the economic resources measurement focus and the accrual basis of accounting.

# School District of the City of Battle Creek

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## Notes to Financial Statements June 30, 2007

### Note I - Summary of Significant Accounting Policies (Continued)

The School District reports the following major governmental funds:

**General Fund** - The General Fund is the School District's primary operating fund. It accounts for all financial resources of the School District, except those required to be accounted for in another fund.

**2007 Bond Building and Site Fund** - This fund is a Capital Projects Fund used to record bond proceeds and related investment income, and the disbursement of funds specifically designated for capital improvement plans as approved by the voters. The fund will operate until the purpose for which it was created is accomplished.

**Calhoun Area Technology Center** - The Calhoun Area Technology Center is a Special Revenue Fund and is used to account for proceeds of specific revenue sources that are restricted to expenditure for specified purposes. On July 1, 2007, the School District turned over this program and the related fund balance to the Calhoun Intermediate School District.

Additionally, the School District reports the following fund types:

**Special Revenue Funds** - Special Revenue Funds are used to account for the proceeds of specific revenue sources that are restricted to expenditure for specified purposes. The School District's Special Revenue Funds include the Math and Science Center, Technology, Athletics, Food Service, and Operation Grad Funds. Any operating deficit generated by these activities is the responsibility of the General Fund.

**Debt Service Fund** - The Durant Debt Retirement Fund is the School District's only Debt Service Fund. It is used to record state revenue and the corresponding principal and interest payments for the Durant bond issue.

**Capital Projects Funds** - Capital Projects Funds are used to account for resources specifically designated for the acquisition and construction of facilities and for major capital improvements to facilities. Activities related to the sinking fund millage are recorded in the Building and Site Fund. The School District also utilized the W. K. Kellogg Auditorium Renovation Fund to record contributions and other resources specifically designated for that purpose.

**Private-purpose Trust Fund** - The Private-purpose Trust Fund is used to account for resources legally held in trust, including contributions received by the School District to be awarded in the form of scholarships.

**Student Activities Agency Fund** - The School District presently maintains an Agency Fund to record the transactions of student groups for school and school-related purposes. The funds are segregated and held in trust for the students.

# School District of the City of Battle Creek

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## Notes to Financial Statements June 30, 2007

### Note I - Summary of Significant Accounting Policies (Continued)

#### Assets, Liabilities, and Net Assets or Equity

**Cash and Investments** - Cash and cash equivalents include cash on hand, demand deposits, and short-term investments with a maturity of three months or less when acquired. Investments are stated at fair value. Pooled investment income is generally allocated to each fund based on the average monthly balances of each respective fund.

**Receivables and Payables** - In general, outstanding balances between funds are reported as "due to/from other funds." Activities between funds that are representative of lending/borrowing arrangements outstanding at the end of the fiscal year are referred to as "advances to/from other funds."

All trade and property tax and other trade receivables are shown net of an allowance for uncollectible amounts. The School District considers all receivables to be fully collectible; accordingly, no allowance for uncollectible amounts is recorded. Property taxes are assessed as of December 31 and the related property taxes become a lien on July 1 for approximately 50 percent of the taxes that are due August 20 and December 1 for the remainder of the property taxes which are due on February 14. The final collection date is February 28, after which delinquent real property taxes are added to the county tax rolls.

**Inventories and Prepaid Items** - Inventories are valued at cost, on a first-in, first-out basis. Inventories of governmental funds are recorded as expenditures when purchased. Certain payments to vendors reflect costs applicable to future fiscal years and are recorded as prepaid items in both district-wide and fund financial statements.

**Restricted Assets** - The unspent bond proceeds and related interest of the 2007 Bond Building and Site Fund require amounts to be set aside for construction. These amounts have been classified as restricted assets, and consist of cash and investments.

**Capital Assets** - Capital assets, which include land, buildings, equipment, and vehicles, are reported in the applicable governmental column in the district-wide financial statements. Capital assets are defined by the School District as assets with an initial individual cost of more than \$5,000 and an estimated useful life in excess of five years. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation. Costs of normal repair and maintenance that do not add to the value or materially extend asset life are not capitalized. The School District does not have infrastructure-type assets.

# School District of the City of Battle Creek

## Notes to Financial Statements June 30, 2007

### Note 1 - Summary of Significant Accounting Policies (Continued)

Buildings, equipment, and vehicles are depreciated using the straight-line method over the following useful lives:

Buildings and building additions	20-50 years
Buses and other vehicles	5-8 years
Furniture and other equipment	5-20 years

**Compensated Absences** - The liability for compensated absences reported in the district-wide statements consists of earned but unused accumulated sick leave benefits. A liability for these amounts is reported in governmental funds as it comes due for payment. The liability has been calculated using the vesting method, in which leave amounts for employees who are currently eligible to receive termination payments at normal retirement age are included.

**Long-term Obligations** - In the district-wide financial statements, long-term debt and other long-term obligations are reported as liabilities in the statement of net assets. Bond premiums are deferred and amortized over the life of the bonds using the effective interest method. Bonds payable are reported net of the applicable bond premium.

In the fund financial statements, governmental fund types recognized bond premiums, as well as bond issuance costs, during the current period.

**Fund Equity** - In the fund financial statements, governmental funds report reservations of fund balance for amounts that are not available for appropriation or are legally restricted by outside parties for use for a specific purpose. Designations of fund balance represent tentative management plans that are subject to change.

**Comparative Data** - Comparative data is not included in the School District's financial statements.

### Note 2 - Stewardship, Compliance, and Accountability

**Budgetary Information** - Annual budgets are adopted on a basis consistent with generally accepted accounting principles and state law for the General, Special Revenue, and Capital Project Funds. All annual appropriations lapse at fiscal year end.



# School District of the City of Battle Creek

## Notes to Financial Statements June 30, 2007

### Note 2 - Stewardship, Compliance, and Accountability (Continued)

The budget document presents information by fund and function. The legal level of budgetary control adopted by the governing body (i.e., the level at which expenditures may not legally exceed appropriations) is the function level. The School District's Board of Education has authorized administration to make transfers of appropriations within or between functions in an amount not to exceed 5 percent of the amount of the appropriation from which the transfer is made. State law requires the School District to have its budget in place by July 1. Expenditures in excess of amounts budgeted are a violation of Michigan law. State law permits districts to amend their budgets during the year. The School District changed budgeted amounts during the year in response to state aid and other funding reductions.

Encumbrance accounting is employed in governmental funds. Amounts encumbered for purchase orders, contracts, etc. are not tracked during the year. Budget appropriations are considered to be spent once the goods are delivered or the services rendered.

**Excess of Expenditures Over Appropriations in Budgeted Funds** - During the year, the School District incurred expenditures in the General Fund and Major Special Revenue Fund, which were in excess of the amounts budgeted, as follows:

	<u>Budget</u>	<u>Actual</u>
General Fund - Intergovernmental transfers	\$ 58,686	\$ 1,306,871
Calhoun Area Technology Center - Operations and maintenance	669,974	726,309

Variance in General Fund was attributable to a state flow-through program in both revenue and expenditures, not previously budgeted.

**Capital Projects Fund Compliance** - The 2007 Bond Building and Site Fund includes capital project activities funded with bonds issued after May 1, 1994. For this Capital Projects Fund, the School District has complied with the applicable provisions of §1351a of the State of Michigan's School Code.

The Building and Site Fund records capital project activities funded with Sinking Fund millage. For this fund, the School District has complied with the applicable provisions of §1212(1) of the State of Michigan School Code.

# School District of the City of Battle Creek

## Notes to Financial Statements June 30, 2007

### Note 3 - Deposits and Investments

State statutes and the School District's investment policy authorize the School District to make deposits in the accounts of federally insured banks, credit unions, and savings and loan associations that have offices in Michigan. The School District is allowed to invest in U.S. Treasury or agency obligations, U.S. government repurchase agreements, bankers' acceptances, commercial paper rated prime at the time of purchase that matures not more than 270 days after the date of purchase, mutual funds, and investment pools that are composed of authorized investment vehicles. The School District's deposits are in accordance with statutory authority. The School also holds funds in trust for other parties which are invested in common stocks and other investments.

The School District has designated five banks and credit unions for the deposit of its funds.

The School District's cash and investments are subject to several types of risk, which are examined in more detail below:

#### Custodial Credit Risk of Bank Deposits

Custodial credit risk is the risk that in the event of a bank failure, the School District's deposits may not be returned to it. The School District does not have a deposit policy for custodial credit risk. At year end, the School District's deposit balance of \$69,740,692 had \$69,389,780 of bank deposits (certificates of deposit, checking and savings accounts) that were uninsured and uncollateralized. The School District believes that due to the dollar amounts of cash deposits and the limits of FDIC insurance, it is impractical to insure all deposits. As a result, the District evaluates each financial institution with which it deposits funds and assesses the level of risk of each institution; only those institutions with an acceptable estimated risk level are used as depositories.

#### Custodial Credit Risk of Investments

Custodial credit risk is the risk that, in the event of the failure of the counterparty, the School District will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. The School District does not have an investment policy for custodial credit risk. The following securities were uninsured and unregistered and held in the following manner:

Investment Type	Carrying Value	How held
U.S. agency notes	\$ 8,342,315	Held by counterparty
Commercial paper	8,603,225	Held by counterparty
Stocks	1,450,189	Held by counterparty
Corporate bonds	600,054	Held by counterparty

# School District of the City of Battle Creek

## Notes to Financial Statements June 30, 2007

### Note 3 - Deposits and Investments (Continued)

#### Interest Rate Risk

Interest rate risk is the risk that the value of investments will decrease as a result of a rise in interest rates. The School District's investment policy restricts investment maturities to within five years of the date of purchase, except for commercial paper which can only be purchased with a 270-day maturity. In addition, no more than 25 percent of the School District's portfolio may be invested in investments with a maturity of greater than three years. However, some of the investments in the School District's portfolio have maturities greater than five years from the date of purchase. As of June 30, 2007, the School District holds approximately \$748,000 of investments that have a maturity greater than five years.

#### Credit Risk

State law limits investments in commercial paper to the top two ratings issued by nationally recognized statistical rating organizations. The School District's investment policy does not further limit its investment choices.

At year end, the maturities of investments and the credit quality ratings of debt securities (other than the U.S. government) are as follows:

Investment	Fair Value	Maturities	Rating	Rating Organization
Michigan Liquid Asset Fund	\$ 5,000,685	N/A	AAAm	S&P
Bank investment pools	3,748,641	N/A	not rated	N/A
Various common stocks	1,450,189	N/A	N/A	N/A
U.S. Treasury bonds/notes	629,378	1/15/10 - 11/15/16	N/A	N/A
U.S. agency notes	1,285,073	8/3/07 - 9/15/16	AAA	S&P
U.S. agency discounted notes	6,457,548	7/2/07 - 11/13/07	AAA	S&P
Commercial paper - American Express	349,949	7/02/07	A-1	S&P
Commercial paper - Natexis Banques U.S. Finance	349,948	7/02/07	A-1 +	S&P
Commercial paper - UBS Finance Delaware	399,941	7/02/07	A-1 +	S&P
Commercial paper - DCX Revolving	399,882	7/03/07	A-1 +	S&P
Commercial paper - Abbey National	349,795	7/05/07	A-1	S&P
Commercial paper - PACCAR Financial Corp	399,765	7/05/07	A-1 +	S&P
Commercial paper - Intesa Funding LLC	399,470	7/10/07	A-1 +	S&P
Commercial paper - JP Morgan Chase	349,539	7/10/07	A-1 +	S&P
Commercial paper - LaSalle Bank	399,474	7/10/07	A-1 +	S&P
Commercial paper - AIG Funding	399,415	7/11/07	A-1 +	S&P
Commercial paper - HSBC Finance	349,436	7/12/07	A-1 +	S&P
Commercial paper - National Rural Utilities	349,436	7/12/07	A-1	S&P

# School District of the City of Battle Creek

## Notes to Financial Statements June 30, 2007

### Note 3 - Deposits and Investments (Continued)

Investment	Fair Value	Maturities	Rating	Organization
Commercial paper - Toyota Motor Credit	\$ 399,357	7/12/07	A-I +	S&P
Commercial paper - Bank of America	249,377	7/18/07	A-I +	S&P
Commercial paper - FCAR CP	349,073	7/19/07	A-I	S&P
Commercial paper - Bank of America	149,581	7/20/07	A-I +	S&P
Commercial paper - New Center Asset Trust	398,885	7/20/07	A-I	S&P
Commercial paper - American Honda Finance	274,077	7/24/07	A-I	S&P
Commercial paper - Barclays U.S. Funding	348,772	7/25/07	A-I +	S&P
Commercial paper - BNP Paribas Finance	398,538	7/26/07	A-I +	S&P
Commercial paper - ING (U.S.) Funding	398,537	7/26/07	A-I +	S&P
Commercial paper - Dexia Delaware	348,057	8/08/07	A-I +	S&P
Commercial paper - Marshall & Isley	395,029	9/24/07	A-I +	S&P
Commercial paper - Societe General North AM	397,891	8/06/07	A-I +	S&P
Corp note - Sprint Capital Corporation	60,340	11/15/08	A	S&P
Corp note - National Rural Utilities	90,301	2/1/08	B+	S&P
Corp note - Bankamerica Corp	20,160	2/15/09	AA-	S&P
Corp bond - International Lease Finance Corp	60,964	3/15/09	AA-	S&P
Corp note - International Paper Co	47,992	4/1/10	BBB	S&P
Corp note - Chase Manhattan Corp	42,572	6/15/10	A	S&P
Corp bond - Goldman Sachs Group Inc	67,610	1/15/11	A+	S&P
Corp note - Dow Chemical Co	30,417	2/1/11	A-	S&P
Corp note - General Electric Capital Corp	55,981	6/15/12	AAA	S&P
Corp note - Wyeth	44,352	2/1/14	A	S&P
Corp bond - Citigroup Inc	28,213	5/7/15	A+	S&P
Corp note - Suntrust Bank	47,336	1/17/17	B+	S&P
Total investments	<u>\$ 27,770,976</u>			

### Concentration of Credit Risk

The School District places no limit on the amount the School District may invest in U.S. Treasury debt obligations, U.S. agency debt obligations, or SEC-registered money market funds. With the previous exception, the School District's investment policy states no one issuer or group of issuers from the same holding company is to exceed 5 percent of the market value of the portfolio at the time of purchase. The School District does not have more than 5 percent of its investments in any one issue, other than U.S. agency debt obligations, which comprise 28 percent of the School District's investments.

# School District of the City of Battle Creek

## Notes to Financial Statements June 30, 2007

### Note 3 - Deposits and Investments (Continued)

#### Foreign Currency Risk

Foreign currency risk is the risk that an investment denominated in the currency of a foreign country could reduce its U.S. dollar value, as a result of changes in foreign currency exchange rates. State law and the School District's policy prohibit investment in foreign currency.

### Note 4 - Receivables

Receivables as of year end for the School District's individual major funds and the nonmajor in the aggregate, and Fiduciary Funds, including the applicable allowances for uncollectible accounts, are as follows:

	General Fund	Calhoun Area Technology Center	Nonmajor Funds	Subtotal - Governmental Funds	Fiduciary Funds	Total
Receivables:						
Taxes	\$ 13,015	\$ -	\$ -	\$ 13,015	\$ -	\$ 13,015
Accounts	377,875	159,410	228,661	765,946	2,460	768,406
Intergovernmental	<u>11,299,872</u>	<u>95,694</u>	<u>-</u>	<u>11,395,566</u>	<u>-</u>	<u>11,395,566</u>
Net receivables	<u>\$ 11,690,762</u>	<u>\$ 255,104</u>	<u>\$ 228,661</u>	12,174,527	<u>\$ 2,460</u>	<u>\$ 12,176,987</u>
Fiduciary Funds - Due to other funds, classified as receivable in statement of net assets				<u>139,950</u>		
				<u>\$ 12,314,477</u>		

Governmental funds report deferred revenue in connection with receivables for revenue that is not considered to be available to liquidate liabilities of the current period. Governmental funds also defer revenue recognition in connection with resources that have been received but not yet earned. At the end of the current fiscal year, the various components of deferred revenue are as follows:

	<u>Unavailable</u>	<u>Unearned</u>
Grant and categorical aid payment received prior to meeting all eligibility requirements	\$ -	\$ 1,264,396

# School District of the City of Battle Creek

## Notes to Financial Statements June 30, 2007

### Note 5 - Capital Assets

Capital asset activity of the School District's governmental activities was as follows:

	Balance July 1, 2006	Reclassifications	Additions	Balance June 30, 2007
Capital assets not being depreciated:				
Construction in process	\$ 2,249,878	\$ (2,249,878)	\$ 107,786	\$ 107,786
Land	820,993	-	183,565	1,004,558
Subtotal	3,070,871	(2,249,878)	291,351	1,112,344
Capital assets being depreciated:				
Building and building improvements	19,909,349	2,249,878	5,173,808	27,333,035
Buses and other vehicles	4,711,643	-	123,378	4,835,021
Furniture and equipment	5,229,994	-	1,181,626	6,411,620
Subtotal	29,850,986	2,249,878	6,478,812	38,579,676
Accumulated depreciation:				
Building and building improvements	12,998,890	-	484,270	13,483,160
Buses and other vehicles	3,844,168	-	220,463	4,064,631
Furniture and equipment	3,406,547	-	516,193	3,922,740
Subtotal	20,249,605	-	1,220,926	21,470,531
Net capital assets being depreciated	9,601,381	2,249,878	5,257,886	17,109,145
Net governmental capital assets	<u>\$ 12,672,252</u>	<u>\$ -</u>	<u>\$ 5,549,237</u>	<u>\$ 18,221,489</u>

Depreciation expense was charged to activities of the School District as follows:

Governmental activities:	
Instruction	\$ 740,260
Support services	267,822
Athletics	51,464
Food Service	9,782
Community	<u>151,598</u>
Total governmental activities	<u>\$ 1,220,926</u>

# School District of the City of Battle Creek

## Notes to Financial Statements June 30, 2007

### Note 6 - Interfund Receivables, Payables, and Transfers

The composition of interfund balances is as follows:

Fund Due To	Fund Due From			Total
	General	2007 Bond Building and Site	Fiduciary	
Calhoun Area Technology Center Fund	\$ 2,711,740	\$ -	\$ -	\$ 2,711,740
Nonmajor governmental funds	<u>3,253,175</u>	<u>61,409</u>	<u>139,950</u>	<u>3,454,534</u>
Total	<u>\$ 5,964,915</u>	<u>\$ 61,409</u>	<u>\$ 139,950</u>	<u>\$ 6,166,274</u>

Interfund balances shown above primarily represent the respective funds' share of cash and investments that are pooled in the General Fund.

Interfund transfers consist of the following:

Fund Transferring In	Fund Transferring Out			Total
	General Fund	Calhoun Area Technology Center	Other Governmental Funds	
Interfund reimbursements - General Fund	\$ -	\$ 247,277	\$ 171,489	\$ 418,766
Operating transfers - Other governmental funds	<u>1,354,602</u>	<u>-</u>	<u>-</u>	<u>1,354,602</u>
Total	<u>\$ 1,354,602</u>	<u>\$ 247,277</u>	<u>\$ 171,489</u>	<u>\$ 1,773,368</u>

Operating transfers primarily represent subsidized operations in the Athletics and Technology Funds. Interfund reimbursements represent reimbursement of costs, including indirect costs, from one fund that were paid from another fund on its behalf.

### Note 7 - Operating Leases

The building and real estate used by Willard Library are being leased from the School District for \$1 per year. The fair market value of this lease is not known.

# School District of the City of Battle Creek

## Notes to Financial Statements June 30, 2007

### Note 8 - Long-term Debt

The School District issues bonds, notes, and other contractual commitments to provide for the acquisition and construction of major capital facilities and the acquisition of certain equipment. General obligation bonds are direct obligations and pledge the full faith and credit of the School District. Notes and installment purchase agreements are also general obligations of the School District. Other long-term obligations include compensated absences, termination benefits, and certain risk liabilities.

Long-term obligation activity can be summarized as follows:

	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
<b>Governmental Activities</b>					
Bonds payable	\$ 1,009,275	\$ 67,705,000	\$ -	\$ 68,714,275	\$ 1,200,000
Unamortized premium	-	1,016,001	-	1,016,001	-
Total bonds payable	1,009,275	68,721,001	-	69,730,276	1,200,000
Other obligations	3,513,764	306,859	788,545	3,032,078	388,871
Total governmental activities	<u>\$ 4,523,039</u>	<u>\$ 69,027,860</u>	<u>\$ 788,545</u>	<u>\$ 72,762,354</u>	<u>\$ 1,588,871</u>

Annual debt service requirements to maturity for the above governmental bond obligation are as follows:

	Governmental Activities		
	Principal	Interest	Total
2008	\$ 1,200,000	\$ 2,764,927	\$ 3,964,927
2009	1,337,046	3,272,945	4,609,991
2010	1,754,220	3,308,586	5,062,806
2011	1,675,402	3,157,384	4,832,786
2012	1,442,554	3,089,223	4,531,777
2013-2017	7,315,053	14,501,019	21,816,072
2018-2022	9,050,000	12,562,376	21,612,376
2023-2027	11,575,000	10,038,252	21,613,252
2028-2032	14,665,000	6,938,850	21,603,850
2033-2037	18,700,000	2,895,500	21,595,500
Total	<u>\$ 68,714,275</u>	<u>\$ 62,529,062</u>	<u>\$ 131,243,337</u>



# School District of the City of Battle Creek

## Notes to Financial Statements June 30, 2007

### Note 8 - Long-term Debt (Continued)

#### Governmental Activities

General obligation bonds consist of the following:

\$2,462,491 1998 School Improvement Bond (Durant Non-Plaintiff) serial bonds due in annual installments of \$137,046 to \$399,220 through May 15, 2013; interest at 4.76 percent	\$ 1,009,275
\$67,705,000 2007 School Building and Site General Obligation Unlimited Tax Bonds due in annual installments of \$1,200,000 to \$4,110,000 through May 15, 2037; interest from 4% to 5.25%	<u>67,705,000</u>
Total bonded debt	<u>\$ 68,714,275</u>

**Durant Non-Plaintiff Bond** - Included in governmental activities bonds is the Durant Non-Plaintiff Bond. Annual total payments (principal and interest) associated with this bond are funded by the State of Michigan via specifically appropriated state aid and will not require any School District debt levy or utilization of any other School District financial resources. During the year ended June 30, 2007, the State of Michigan revised the payment schedule of the obligation. The total obligation was not changed and the revised payment schedule is reflected above.

Other governmental activities long-term obligations include the following:

Employee-compensated absences	\$ 2,643,207
Self-insurance - Workers' compensation reserves	322,073
Self-insurance - Maintenance health and dental	<u>66,798</u>
Total	<u>\$ 3,032,078</u>

### Note 9 - Risk Management

The School District is exposed to various risks of loss related to property loss, torts, errors and omissions, and employee injuries (workers' compensation), as well as medical benefits provided to employees. The School District has purchased commercial insurance for medical benefits provided to most employees, and participates in the Middle Cities Risk Management Trust risk pool for claims relating to property and liability loss and errors and omissions. Settled claims relating to the commercial insurance have not exceeded the amount of insurance coverage in any of the past three fiscal years. The School District is also self-funded for medical and dental benefits for a small number of employee groups.

# School District of the City of Battle Creek

## Notes to Financial Statements June 30, 2007

### Note 9 - Risk Management (Continued)

The shared-risk pool program in which the School District participates operates as a common risk-sharing management program for school districts in Michigan; member premiums are used to purchase commercial excess insurance coverage and to pay member claims in excess of deductible amounts.

The School District is partially uninsured for workers' compensation claims. Under the plan, the School District's maximum loss is limited to \$300,000 per occurrence. Losses in excess of this limitation are insured up to an aggregate annual limit of \$5,000,000 and a cumulative (per occurrence) limit of \$12,000,000. At June 30, 2007, the School District administration does not believe that the liability for claims incurred but not reported is material. Changes in the estimated liability for the past two fiscal years were as follows:

	2007	2006
Estimated liability - Beginning of year	\$ 530,980	\$ 235,792
Estimated claims incurred - Including changes in estimates	280,093	600,376
Claim payments	489,000	305,188
Estimated liability - End of year	<u>\$ 322,073</u>	<u>\$ 530,980</u>

The School District is also partially uninsured for medical and dental benefits for a small number of employee groups. Claims and estimated liability are not significant.

### Note 10 - Defined Benefit Pension Plan and Postemployment Benefits

**Plan Description** - The School District participates in the Michigan Public School Employees' Retirement System (MPERS), a statewide, cost-sharing, multiple-employer defined benefit public employee retirement system governed by the State of Michigan that covers substantially all employees of the School District. The system provides retirement, survivor, and disability benefits to plan members and their beneficiaries. The Michigan Public School Employees' Retirement System issues a publicly available financial report that includes financial statements and required supplemental information for the system. That report may be obtained by writing to the system at P.O. Box 30171, Lansing, MI 48909-7671.

**Funding Policy** - Employer contributions to the system result from the implementing effects of the School Finance Reform Act. Under these procedures, each school district is required to contribute the full actuarial funding contribution amount to fund pension benefits, plus an additional amount to fund retiree healthcare benefit amounts on a cash disbursement basis.

# School District of the City of Battle Creek

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## Notes to Financial Statements June 30, 2007

### **Note 10 - Defined Benefit Pension Plan and Postemployment Benefits (Continued)**

The pension benefit rate totals 16.34 percent for the period from July 1, 2006 through September 30, 2006 and 17.74 percent from October 1, 2006 through June 30, 2007 of the covered payroll to the plan. Basic plan members make no contributions, but member investment plan members contribute at rates ranging from 3 percent to 4.3 percent of gross wages. The School District's contributions to the MPSERS plan for the years ended June 30, 2007, 2006, and 2005 were \$8,077,247, \$8,469,315, and \$8,017,042, respectively.

**Postemployment Benefits** - Under the MPSERS Act, all retirees participating in the MPSERS pension plan have the option of continuing health, dental, and vision coverages. Retirees having these coverages contribute an amount equivalent to the monthly cost for Part B Medicare and 10 percent of the monthly premium amount for the health, dental, and vision coverages. Required contributions for postemployment healthcare benefits are included as part of the School District's total contribution to the MPSERS plan discussed above.

## **Required Supplemental Information**

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# School District of the City of Battle Creek

## Required Supplemental Information Budgetary Comparison Schedule - General Fund Year Ended June 30, 2007

	Original Budget (Continuation Resolution adopted 06/06)	Final Budget (adopted 06/07)	Actual	Over (Under) Final Budget
<b>Revenue</b>				
Local sources	\$ 7,285,621	\$ 7,286,209	\$ 7,458,205	\$ 171,996
State sources	47,543,797	46,775,486	48,679,638	1,904,152
Federal sources	6,901,645	7,902,810	8,112,495	209,685
Interdistrict and other sources	4,756,757	5,066,408	4,166,848	(899,560)
Total revenue	66,487,820	67,030,913	68,417,186	1,386,273
<b>Expenditures</b>				
Current:				
Instruction:				
Basic programs	20,396,363	21,478,236	21,552,749	74,513
Added needs	6,826,605	6,595,322	6,381,964	(213,358)
Adult education	342,193	394,911	386,637	(8,274)
Employee benefits	12,856,726	12,114,369	12,029,127	(85,242)
Support services:				
Pupil	2,050,158	2,411,342	2,486,604	75,262
Instructional staff	2,874,766	3,389,756	2,846,346	(543,410)
General administration	498,826	589,683	562,330	(27,353)
School administration	2,646,332	2,696,184	2,729,018	32,834
Business services	837,052	821,300	767,471	(53,829)
Operations and maintenance	6,592,201	6,498,935	6,369,264	(129,671)
Transportation	2,511,155	2,492,517	2,034,313	(458,204)
Central office	1,197,696	1,633,314	1,543,273	(90,041)
Employee benefits	6,321,171	6,155,321	6,140,060	(15,261)
Community services	298,650	241,195	224,397	(16,798)
Intergovernmental transfers	325,663	58,686	1,306,871	1,248,185
Interfund reimbursement	(345,535)	(430,812)	(418,766)	12,046
Total expenditures	66,230,022	67,140,259	66,941,658	(198,601)
<b>Other Financing Uses - Transfers out</b>	(1,406,837)	(1,406,837)	(1,354,602)	(52,235)
<b>Net Change in Fund Balance</b>	(1,149,039)	(1,516,183)	120,926	1,637,109
<b>Variance Projection</b>	1,200,000	1,200,000	-	(1,200,000)
<b>Net Change after Variance Projection</b>	50,961	(316,183)	120,926	437,109
<b>Fund Balance - July 1, 2006</b>	23,099,026	23,099,026	23,099,026	-
<b>Fund Balance - June 30, 2007</b>	<u>\$ 23,149,987</u>	<u>\$ 22,782,843</u>	<u>\$ 23,219,952</u>	<u>\$ 437,109</u>

# School District of the City of Battle Creek

## Required Supplemental Information Budgetary Comparison Schedule - Major Special Revenue Fund Calhoun Area Technology Center Year Ended June 30, 2007

	Original Budget	Final Budget	Actual	Over (Under) Final Budget
<b>Revenue</b>				
Local sources	\$ 158,760	\$ 168,760	\$ 239,387	\$ 70,627
State sources	820,354	850,092	739,605	(110,487)
Federal sources	807,786	908,623	799,269	(109,354)
Interdistrict and other sources	6,405,736	6,365,571	5,674,779	(690,792)
Total revenue	8,192,636	8,293,046	7,453,040	(840,006)
<b>Expenditures - Current</b>				
Instruction:				
Added needs	3,340,680	3,615,796	3,310,002	(305,794)
Employee benefits	1,071,608	1,036,998	932,445	(104,553)
Support services:				
Pupil	609,903	604,523	598,802	(5,721)
Instructional staff	286,726	375,253	293,602	(81,651)
School administration	428,005	427,505	413,209	(14,296)
Business services	72,000	102,000	102,866	866
Operations and maintenance	674,700	669,974	726,309	56,335
Transportation	80,192	79,305	50,907	(28,398)
Central office	216,839	194,327	168,381	(25,946)
Employee benefits	651,645	638,993	608,503	(30,490)
Community services	8,545	5,046	2,769	(2,277)
Capital outlay	561,097	561,097	453,916	(107,181)
Intergovernmental transfers	272,439	157,966	14,000	(143,966)
Interfund reimbursement	270,280	270,280	247,277	(23,003)
Total expenditures	8,544,659	8,739,063	7,922,988	(816,075)
<b>Net Change in Fund Balance</b>	(352,023)	(446,017)	(469,948)	(23,931)
<b>Variance Projection</b>	500,000	500,000	-	(500,000)
<b>Net Change after Variance Projection</b>	147,977	53,983	(469,948)	(523,931)
<b>Fund Balance - July 1, 2006</b>	3,028,487	3,028,487	3,028,487	-
<b>Fund Balance - June 30, 2007</b>	<u>\$ 3,176,464</u>	<u>\$ 3,082,470</u>	<u>\$ 2,558,539</u>	<u>\$ (523,931)</u>

## **Other Supplemental Information**

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# School District of the City of Battle Creek

	Special Revenue Funds			
	Math and Science Center	Technology	Athletics	Food Service
<b>Assets</b>				
Cash and investments	\$ 70	\$ -	\$ 17,454	\$ 5,271
Accounts receivable	203,588	-	-	25,073
Due from other funds	353,287	479,264	60,230	844,830
Inventories	646,564	-	-	23,451
Prepays	3,323	152,003	29,753	7,542
Total assets	<u>\$ 1,206,832</u>	<u>\$ 631,267</u>	<u>\$ 107,437</u>	<u>\$ 906,167</u>
<b>Liabilities and Fund Balances</b>				
<b>Liabilities</b>				
Accounts payable	\$ 14,495	\$ 3,639	\$ 24,540	\$ 33,267
Salaries and other accrued liabilities	162,413	-	33,195	6,072
Deferred revenue	292,583	-	600	2,122
Total liabilities	469,491	3,639	58,335	41,461
<b>Fund Balances</b>				
Reserved:				
Inventories	646,564	-	-	21,329
Prepays	3,323	152,003	29,753	7,542
Capital projects	-	-	-	-
Unreserved - Undesignated, reported in Special Revenue Funds	87,454	475,625	19,349	835,835
Total fund balances	737,341	627,628	49,102	864,706
Total liabilities and fund balances	<u>\$ 1,206,832</u>	<u>\$ 631,267</u>	<u>\$ 107,437</u>	<u>\$ 906,167</u>



**Other Supplemental Information  
Combining Balance Sheet  
Nonmajor Governmental Funds  
June 30, 2007**

	Debt Service Fund	Capital Projects Funds		
			WK Kellogg Auditorium	
Operation GRAD	Durant Debt Retirement	Building and Site Fund	Renovation Fund	Total
\$ -	\$ -	\$ 471,155	\$ -	\$ 493,950
-	-	-	-	228,661
761,264	-	955,659	-	3,454,534
-	-	-	-	670,015
1,450	-	-	-	194,071
<u>\$ 762,714</u>	<u>\$ -</u>	<u>\$ 1,426,814</u>	<u>\$ -</u>	<u>\$ 5,041,231</u>
\$ 8,885	\$ -	\$ 449,840	\$ -	\$ 534,666
143,585	-	-	-	345,265
110,577	-	-	-	405,882
263,047	-	449,840	-	1,285,813
-	-	-	-	667,893
1,450	-	-	-	194,071
-	-	976,974	-	976,974
498,217	-	-	-	1,916,480
499,667	-	976,974	-	3,755,418
<u>\$ 762,714</u>	<u>\$ -</u>	<u>\$ 1,426,814</u>	<u>\$ -</u>	<u>\$ 5,041,231</u>

# School District of the City of Battle Creek

	Special Revenue Funds			
	Math and Science			
	Center	Technology	Athletics	Food Service
<b>Revenue</b>				
Local	\$ 1,539,425	\$ 220,627	\$ 122,268	\$ 520,440
State	1,378,062	-	-	300,076
Federal	50,888	-	-	1,929,164
Total revenue	2,968,375	220,627	122,268	2,749,680
<b>Expenditures</b>				
Current:				
Instruction	1,006,632	-	-	-
Support services	1,887,617	686,094	-	-
Food services	-	-	-	2,551,484
Athletics	-	-	852,991	-
Capital outlay	-	226,288	49,575	39,694
Interfund reimbursement	71,963	-	-	44,556
Total expenditures	2,966,212	912,382	902,566	2,635,734
<b>Excess (Deficiency) of Revenue Over Expenditures</b>	2,163	(691,755)	(780,298)	113,946
<b>Other Financing Sources -</b>				
Transfers in	-	621,760	732,842	-
<b>Net Change in Fund Balances</b>	2,163	(69,995)	(47,456)	113,946
<b>Fund Balances - Beginning of year</b>	735,178	697,623	96,558	750,760
<b>Fund Balances - End of year</b>	<u>\$ 737,341</u>	<u>\$ 627,628</u>	<u>\$ 49,102</u>	<u>\$ 864,706</u>

**Other Supplemental Information**  
**Combining Statement of Revenue, Expenditures, and**  
**Changes in Fund Balances**  
**Nonmajor Governmental Funds**  
**Year Ended June 30, 2007**

	Debt Service Fund	Capital Projects Funds		
			WK Kellogg Auditorium Renovation Fund	
Operation GRAD	Durant Debt Retirement	Building and Site Fund		Total
\$ 24,417	\$ -	\$ 2,310,991	\$ 2,774,000	\$ 7,512,168
1,557,850	-	-	-	3,235,988
784	-	-	-	1,980,836
1,583,051	-	2,310,991	2,774,000	12,728,992
862,503	-	-	-	1,869,135
563,004	-	-	-	3,136,715
-	-	-	-	2,551,484
-	-	-	-	852,991
-	-	3,602,603	2,774,000	6,692,160
54,970	-	-	-	171,489
1,480,477	-	3,602,603	2,774,000	15,273,974
102,574	-	(1,291,612)	-	(2,544,982)
-	-	-	-	1,354,602
102,574	-	(1,291,612)	-	(1,190,380)
397,093	-	2,268,586	-	4,945,798
<b>\$ 499,667</b>	<b>\$ -</b>	<b>\$ 976,974</b>	<b>\$ -</b>	<b>\$ 3,755,418</b>

# School District of the City of Battle Creek

## Other Supplemental Information Schedule of Bonded Indebtedness Year Ended June 30, 2007

June 30	Durant Principal	2007 Bond Principal
2008	\$ -	\$ 1,200,000
2009	137,046	1,200,000
2010	399,220	1,355,000
2011	150,402	1,525,000
2012	157,554	1,285,000
2013	165,053	1,340,000
2014	-	1,365,000
2015	-	1,420,000
2016	-	1,475,000
2017	-	1,550,000
2018	-	1,630,000
2019	-	1,715,000
2020	-	1,805,000
2021	-	1,900,000
2022	-	2,000,000
2023	-	2,100,000
2024	-	2,200,000
2025	-	2,310,000
2026	-	2,425,000
2027	-	2,540,000
2028	-	2,660,000
2029	-	2,785,000
2030	-	2,925,000
2031	-	3,070,000
2032	-	3,225,000
2033	-	3,385,000
2034	-	3,555,000
2035	-	3,735,000
2036	-	3,915,000
2037	-	4,110,000
Total	<u>\$ 1,009,275</u>	<u>\$ 67,705,000</u>
Principal payments due	May 15	May 11
Interest payments due	May 15	May 1 and November 1
Interest rate	4.76%	4% to 5.25%
Original issue	<u>\$ 2,462,491</u>	<u>\$ 67,705,000</u>